

**CITY OF ROSE CITY
Ogemaw County, Michigan**

**Financial Report
with Supplemental Information
June 30, 2005**

JAN 04 2006

Michigan Department of Treasury
496 (2-04)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF ROSE CITY		LOCAL AUDIT & FINANCE DIV. OGE MAW	
Audit Date 6/30/05		Opinion Date 12/22/05		Date Accountant Report Submitted to State: 12/29/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) ROBERTSON & CARPENTER, CPAs, LLP			
Street Address 103 E MAIN STREET		City ROSE CITY	State MI
Accountant Signature <i>Rodney Robertson, CPA</i>		ZIP 48654	
		Date 12/29/05	

City of Rose City

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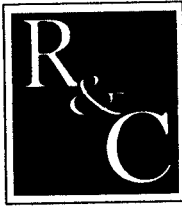
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ROBERTSON & CARPENTER, LLP

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 69 103 E. Main Street Rose City, Michigan 48654

Phone (989) 685-2411 Fax (989) 685-2412

Other Office: Mio, Michigan

Rodney C. Robertson, CPA

Robert J. Carpenter, CPA

INDEPENDENT AUDITOR'S REPORT

City Council
City of Rose City
Rose City, Michigan 48654

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rose City as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rose City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rose City as of June 30, 2005, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and pages 28 through 30 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rose City's basic financial statements. The accompanying pages of other supplemental information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robertson & Carpenter, CPAs, LLP

Robertson & Carpenter, LLP
Certified Public Accountants
December 22, 2005

Management's Discussion and Analysis

As management of City of Rose City (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005.

Financial Highlights

- The assets of City of Rose City exceeded its liabilities at the close of the most recent fiscal year by \$2,762,667 (*net assets*). Unrestricted net assets for the governmental activities were \$285,375. This amount represents the part of net assets that is available to finance day-to-day operations of the City.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 291,175, an increase of \$ 102,093 in comparison with the prior year. Approximately 71% of the total amount, \$207,832, is available for spending at the City's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$207,832 or 63% percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused sick or vacation leave).

Both of the government-wide financial statements present functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, and recreation and culture. The business-type activities of the City include a sewer system and a water system.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Rose City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, and Local Street Fund. Data from the other two non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Rose City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the General Fund, Major Street Fund and Local Street Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 11-12 of this report.

Proprietary Funds. City of Rose City maintains two proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sewer and water activities.

The basic proprietary fund financial statements can be found on pages 14 to 16 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 17 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-27 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's budgetary comparison schedules for major governmental funds. Required supplementary information can be found on pages 28 to page 30 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining fund statements can be found on pages 31-32 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded its liabilities by \$2,762,667 at the close of the most recent fiscal year.

The most significant portion of the City's net assets (\$2,191,639, or 79%) reflects its investment in capital assets (e.g., infrastructure, land, buildings, vehicles, and equipment). The City uses these capital assets to provide services to the community; consequently, these assets are *not* available for future spending.

An additional portion of the City's net assets (\$5,733, or 1%) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$565,295, or 20%) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and Other Assets	\$ 301,695	\$ 206,996	\$ 283,459	\$ 239,120	\$ 585,154	\$ 446,116
Capital Assets, Net	548,032	529,785	1,643,607	1,678,348	2,191,639	2,208,133
Total Assets	<u>849,727</u>	<u>736,781</u>	<u>1,927,066</u>	<u>1,917,468</u>	<u>2,776,793</u>	<u>2,654,249</u>
Current Liabilities	10,587	18,173	3,539	4,201	14,126	22,374
Total Liabilities	<u>10,587</u>	<u>18,173</u>	<u>3,539</u>	<u>4,201</u>	<u>14,126</u>	<u>22,374</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	548,032	529,785	1,643,607	1,678,348	2,191,639	2,208,133
Restricted	5,733	43,495	0	0	5,733	43,495
Unrestricted	<u>285,375</u>	<u>145,328</u>	<u>279,920</u>	<u>234,919</u>	<u>565,295</u>	<u>380,247</u>
Total Net Assets	<u>\$ 839,140</u>	<u>\$ 718,608</u>	<u>\$1,923,527</u>	<u>\$1,913,267</u>	<u>\$2,762,667</u>	<u>\$2,631,875</u>

The City's net assets increased by \$130,792 during the current fiscal year discussed below.

City's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue:						
Program Revenue:						
Charges for Services	\$131,500	\$ 119,283	\$123,993	\$ 122,329	\$ 255,493	\$ 241,612
Operating Grants	78,820	129,973	-	-	78,820	129,973
Capital Grants	-	-	20,928	4,314	20,928	4,314
General Revenue:						
Property Taxes	230,218	220,284	-	-	230,218	220,284
State-Shared Revenues	90,920	99,096	-	-	90,920	99,096
Interest Earnings	1,447	1,200	-	1,948	4,436	3,148
Other	8,231	7,633	2,989	-	8,231	7,633
Total Revenue	541,136	577,469	147,910	128,591	689,046	706,060
Expenses:						
General						
Government	109,649	112,436	-	-	109,649	112,436
Public Safety	72,971	131,096	-	-	72,971	131,096
Public Works	213,480	206,542	-	-	213,480	206,542
Recreation and Culture	14,792	13,138	-	-	14,792	13,138
Other	9,712	10,553	-	-	9,712	10,553
Sewer and Water	-	-	137,650	113,508	137,650	113,508
Total Expenses	420,604	473,765	137,650	113,508	558,254	587,273
Increase (Decrease) in Net Assets	120,532	103,704	10,260	15,083	130,792	118,787
Net Assets, Beginning of Year	718,608	614,904	1,913,267	1,898,184	2,631,875	2,513,088
Net Assets, End of Year	\$839,140	\$ 718,608	\$1,923,527	\$1,913,267	\$2,762,667	\$2,631,875

Governmental activities. Governmental activities increased the City's net assets by \$120,532, accounting for 92% of the total growth in net assets of the City. This was primarily attributed to an increase in City assets from infrastructure additions and a reduction in operating expenses for police and fire protection services. Governmental expenses decreased by \$53,161, primarily due to a decrease of \$58,125 in the public safety area for police protection costs.

Business-type activities. Business-type activities increased the City's net assets by \$10,260.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$291,175, an increase of \$102,093 in comparison with the prior year. Approximately 71% of this total amount (\$207,832) constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are reserved or included in special revenue funds and not available for current general fund expenditure. The reserved portion of the general fund is \$5,733 available for police salvage costs. The fund balance amounts in special revenue funds consists of \$22,476 in the major street fund, \$43,672 in the local street fund, \$5,553 in the DDA fund and \$5,949 in the recreation fund.

The general fund is the principal operating fund of the City. At the end of the current fiscal year, unreserved fund balance and total fund balance of the general fund were \$207,832 and \$213,565, respectively. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent approximately 63% and 65% of total general fund expenditures.

The fund balance of the General Fund increased by \$61,252 during the current fiscal year.

Proprietary funds. The City proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer and Water Fund at the end of the year amounted to \$279,920. The total increase in net assets was \$10,260. Other factors concerning the finances of the fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City's budgets are prepared in accordance with Michigan Law. The most significant budgeted fund is the General Fund. The general fund budget was amended during the year, revising functional categories as needed. As additional information became known during the fiscal year, budget amendments were made to recognize the additional revenue and/or planned expenditures related to various City programs.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental activities as of June 30, 2005, amounted to \$548,032 (net of accumulated depreciation). This investment in capital assets includes infrastructure, land, buildings, vehicles and equipment. Additions totaled \$57,829, including road improvements of \$51,472 for the fiscal year.

City's Capital Assets (net of depreciation)

	Governmental Activities	Business-type Activities	Total
Land	\$ 59,543	\$ -	\$ 59,543
Infrastructure	221,961	-	221,961
Land improvements	61,421	-	61,421
Buildings and improvements	101,210	-	101,210
Furniture and Equipment	103,897	-	103,897
Sewer and water systems	-	1,643,607	1,643,607
Total	\$548,032	\$1,643,607	\$2,191,639

Additional information on the City's capital assets can be found in note 5 on page 24 and 25 of this report.

Factors Bearing on the City's Future

The following factors were considered in preparing the City's budget for the 2005-2006 fiscal year:

- The State of Michigan has made significant cuts in their operating budgets due to a downturn in the economy. For 2004-2005, the City received \$88,211 in state shared revenue from sales tax distributions, representing 22% of the revenues in the General Fund. The amounts of state shared revenues for future periods are uncertain and will affect the City's budgets. Our budgets were prepared with these factors in mind and will need to be revised as needed.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Rose City
City Hall
410 N. Williams
Rose City, Michigan 48654

City of Rose City
Statement of Net Assets
June 30, 2005

	Governmental Activities	Business-type Activities	Total
Assets			
Cash (Note 3)	\$ 261,395	\$ 253,090	\$ 514,485
Receivables (Note 4)	2,361	42,174	44,535
Internal balances	11,805	(11,805)	-
Due from governmental units (Note 4)	26,134	-	26,134
Capital assets-net	<u>548,032</u>	<u>1,643,607</u>	<u>2,191,639</u>
Total assets	<u>849,727</u>	<u>1,927,066</u>	<u>2,776,793</u>
Liabilities			
Accounts payable	7,208	3,539	10,747
Accrued and other liabilities	999	-	999
Due to other governments	1,750	-	1,750
Deferred revenue (Note 4)	<u>630</u>	<u>-</u>	<u>630</u>
Total liabilities	<u>10,587</u>	<u>3,539</u>	<u>14,126</u>
Net Assets			
Invested in capital assets, net of related debt	548,032	1,643,607	2,191,639
Restricted:-			
Restricted for police inspections	5,733	-	5,733
Unrestricted	<u>285,375</u>	<u>279,920</u>	<u>565,295</u>
Total net assets	<u>\$ 839,140</u>	<u>\$ 1,923,527</u>	<u>\$ 2,762,667</u>

See accompanying notes to financial statements.

City of Rose City
Statement of Activities
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Capital Grants
Primary government:				
Governmental Activities:				
General government	\$ 109,649	\$ 14,913	\$ -	\$ -
Public safety	72,971	1,200	-	-
Public works	213,480	82,673	78,820	-
Recreation and culture	14,792	10,381	-	-
Other	9,712	22,333	-	-
Total governmental activities	420,604	131,500	78,820	-
Business-type activities:				
Sewage Disposal System	113,811	108,676	-	-
Water System	23,839	15,317	-	20,928
Total business-type activities	137,650	123,993	-	20,928
Total primary government	558,254	255,493	78,820	20,928
General Revenues:				
Property taxes				
State-shared revenues				
Interest and investment earnings				
Other				
Total general revenues				
Change in Net Assets				
Net assets - beginning of year				
Net assets - end of year				

See accompanying notes to financial statements.

Net (Expense) Revenue and
Changes in Net Assets

Changes in Net Assets Governmental Activities	Business-type Activities	Total
\$ (94,736)	\$ -	\$ (94,736)
(71,771)	-	(71,771)
(51,987)	-	(51,987)
(4,411)	-	(4,411)
12,621	-	12,621
(210,284)	-	(210,284)
-	(5,135)	(5,135)
-	12,406	12,406
-	7,271	7,271
(210,284)	7,271	(203,013)
230,218	-	230,218
90,920	-	90,920
1,447	2,989	4,436
8,231	-	8,231
330,816	2,989	333,805
120,532	10,260	130,792
718,608	1,913,267	2,631,875
<u>\$ 839,140</u>	<u>\$ 1,923,527</u>	<u>\$ 2,762,667</u>

City of Rose City
Governmental Fund
Balance Sheet
June 30, 2005

	General Fund	Major Street Fund	Local Street Fund
Assets			
Cash and investments	\$ 199,787	\$ 13,514	\$ 35,906
Accounts receivable	2,359	-	-
Due from other funds	11,904	-	1,503
Due From other governmental units	10,909	8,962	6,263
Total assets	\$ <u>224,959</u>	\$ <u>22,476</u>	\$ <u>43,672</u>
Liabilities			
Accounts payable	\$ 6,586	\$ 33	\$ -
Accrued and other liabilities	925	4	3
Due to other funds	1,503	-	-
Due to other governments	1,750	-	-
Deferred revenue	630	-	-
Total liabilities	<u>11,394</u>	<u>37</u>	<u>3</u>
Fund balances			
Reserved for police inspections	5,733	-	-
Unreserved:			
General Fund	207,832	-	-
Unreserved-undesignated, reported in:			
Special Revenue Funds	-	22,439	43,669
Total fund balances	<u>213,565</u>	<u>22,439</u>	<u>43,669</u>
Total liabilities and fund balances	\$ <u>224,959</u>	\$ <u>22,476</u>	\$ <u>43,672</u>

Fund Balances - Total Governmental Funds

Elimination of due to and due from governmental funds

Due to

Due from

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial financial resources, and are not reported in the funds.

The cost of capital assets is

Accumulated depreciation is

Long term liabilities are not due and payable in the current period and are not reported in the fund statements

Compensated absences

Net Assets of Governmental Activities

See accompanying notes to financial statements.

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 12,188	\$ 261,395
-	2,359
-	13,407
-	26,134
\$ <u>12,188</u>	\$ <u>303,295</u>
\$ 589	\$ 7,208
-	932
97	1,600
-	1,750
-	630
<u>686</u>	<u>12,120</u>
-	5,733
-	207,832
<u>11,502</u>	<u>77,610</u>
<u>11,502</u>	<u>291,175</u>
\$ <u>12,188</u>	\$ <u>303,295</u>
	291,175
	(13,407)
	13,407
	812,974
	(264,942)
	(67)
	\$ <u>839,140</u>

City of Rose City
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2005

	General Fund	Major Street Fund	Local Street Fund
Revenues			
Taxes and penalties	\$ 195,375	\$ -	\$ 35,133
Licenses and permits	2,820	-	-
Federal grants	-	-	-
State-shared revenues	90,920	53,765	17,929
Charges for services	2,561	-	-
Fines and forfeits	97	-	-
Interest and rentals	30,930	-	-
Reimbursements	82,673	-	-
Other	3,736	-	7,126
Total revenues	<u>409,112</u>	<u>53,765</u>	<u>60,188</u>
Expenditures			
Current:			
General government	101,601	-	-
Public safety	68,080	-	-
Public works	138,270	31,326	52,167
Recreation and culture	3,840	-	-
Other	9,712	-	-
Capital outlay	6,357	-	-
Total expenditures	<u>327,860</u>	<u>31,326</u>	<u>52,167</u>
Excess of Revenues Over (Under)			
Expenditures	81,252	22,439	8,021
Other Financing Sources (Uses)			
Transfers in (out)	(20,000)	-	-
Total other financing uses	<u>(20,000)</u>	<u>-</u>	<u>-</u>
Change in Fund Balance	61,252	22,439	8,021
Fund balances-Beginning of year	<u>152,313</u>	<u>-</u>	<u>35,648</u>
Fund balances-End of year	<u>\$ 213,565</u>	<u>\$ 22,439</u>	<u>\$ 43,669</u>

See accompanying notes to financial statements.

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 7,690	\$ 238,198
-	2,820
-	-
-	162,614
-	2,561
-	97
-	30,930
-	82,673
10,381	21,243
<u>18,071</u>	<u>541,136</u>
2,137	103,738
-	68,080
-	221,763
5,553	9,393
-	9,712
-	6,357
<u>7,690</u>	<u>419,043</u>
10,381	122,093
-	(20,000)
-	(20,000)
10,381	102,093
<u>1,121</u>	<u>189,082</u>
\$ <u>11,502</u>	\$ <u>291,175</u>

City of Rose City
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
June 30, 2005

Net Change in Fund Balances - Total Governmental Funds **\$ 102,093**

Amounts reported for governmental activities are different because:

Government funds report capital outlays as expenditures;
in the statement of activities these costs are allocated
over their estimated useful lives as depreciation.

Depreciation expense	\$ (39,121)	
Capital outlay	6,357	
Public works - roads	<u>51,472</u>	
		18,708

Decrease in compensated absences are reported as
expenditures when financial resources are used
in governmental funds 192

Deduct loss on sale of capital assets (461)

Change in Net Assets of Governmental Activities **\$ 120,532**

See accompanying notes to financial statements.

City of Rose City
Proprietary Funds
Statement of Net Assets
June 30, 2005

	Enterprise Funds		
	Major Fund	Major Fund	Total-Enterprise Funds
	Sewer System	Water System	
Assets			
Current assets:			
Cash and cash equivalents	\$ 220,495	\$ 32,595	\$ 253,090
Accounts receivable	37,368	4,806	42,174
Due from other funds	-	594	594
Total current assets	257,863	37,995	295,858
Noncurrent assets:			
Capital assets	1,281,617	361,990	1,643,607
Total noncurrent assets	1,281,617	361,990	1,643,607
Total assets	1,539,480	399,985	1,939,465
Liabilities			
Current liabilities:			
Accounts payable	1,373	2,166	3,539
Due to other funds	687	11,712	12,399
Total current liabilities	2,060	13,878	15,938
Total liabilities	2,060	13,878	15,938
Net Assets			
Invested in capital assets - Net of related debt	1,281,617	361,990	1,643,607
Unrestricted	255,803	24,117	279,920
Total net assets	\$ 1,537,420	\$ 386,107	\$ 1,923,527

See accompanying notes to financial statements.

City of Rose City
Proprietary Funds
Statement of Revenue, Expenses and Changes in Net Assets
Year Ended June 30, 2005

	Enterprise Funds		
	Major Fund	Major Fund	Total Enterprise Funds
	Sewer System	Water System	
Operating Revenue			
Customer billings	\$ 108,676	\$ 15,317	\$ 123,993
Total operating revenue	108,676	15,317	123,993
Operating Expenses			
Contracted services	2,349	2,479	4,828
Utilities	17,628	2,369	19,997
Repairs and maintenance	41,905	12,180	54,085
Other supplies and expenses	8,513	82	8,595
Depreciation	43,416	6,729	50,145
Total operating expenses	113,811	23,839	137,650
Operating Income (Loss)	(5,135)	(8,522)	(13,657)
Nonoperating Revenue (Expenses)			
Interest income	2,989	-	2,989
Transfer from General Fund	-	20,000	20,000
Tap fees	-	928	928
Change in Net Assets	(2,146)	12,406	10,260
Net assets - Beginning of year	1,539,566	373,701	1,913,267
Net Assets - End of year	\$ 1,537,420	\$ 386,107	\$ 1,923,527

See accompanying notes to financial statements.

City of Rose City
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2005

	Enterprise Funds		
	Major Fund Sewer	Major Fund Water	Total Enterprise Funds
Cash Flows from Operating Activities			
Receipts from customers	\$ 108,519	\$ 14,389	\$ 122,908
Payments to suppliers	(72,984)	(3,471)	(76,455)
Other receipts	-	-	-
Net cash provided by operating activities	35,535	10,918	46,453
Cash Flows from Noncapital Financing Activities			
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
Net cash provided by noncapital financing activities	-	-	-
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(3,692)	(11,712)	(15,404)
Capital contributions	-	20,928	20,928
Net cash used in capital and related financing activities	(3,692)	9,216	5,524
Cash Flows from Investing Activities -			
Interest received on investments	2,989	-	2,989
Net Increase in Cash and Cash Equivalents	34,832	20,134	54,966
Cash and Cash Equivalents - Beginning of year	185,663	12,461	198,124
Cash and Cash Equivalents - End of year	<u>\$ 220,495</u>	<u>\$ 32,595</u>	<u>\$ 253,090</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and cash equivalents	<u>\$ 220,495</u>	<u>\$ 32,595</u>	<u>\$ 253,090</u>
Total cash and cash equivalents	220,495	32,595	253,090
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income (loss)	(5,135)	(8,522)	(13,657)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	43,416	6,729	50,145
Changes in assets and liabilities:			
Receivables	(844)	(334)	(1,178)
Due from other funds	-	(594)	(594)
Accounts payable	(2,589)	1,927	(662)
Accrued and other liabilities	-	-	-
Due to other funds	687	11,712	12,399
Net cash provided by (used in) operating activities	<u>\$ 35,535</u>	<u>\$ 10,918</u>	<u>\$ 46,453</u>

See accompanying notes to financial statements.

City of Rose City
Fiduciary Funds
Statement of Net Assets
June 30, 2005

	<u>Agency Funds</u>
Assets	
Cash	\$ 2
Due from other funds	<u>-</u>
Total assets	\$ <u><u>2</u></u>
Liabilities	
Due to other funds	\$ 2
Due to other governments	<u>-</u>
Total liabilities	\$ <u><u>2</u></u>

See accompanying notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Rose City ("the City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The fund financial statements focus on major funds rather than fund types.

The following is a summary of the significant accounting policies used by the City of Rose City, Michigan:

Reporting Entity

The City of Rose City, Michigan is governed by six elected City Council members and an elected mayor. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the City's reporting entity, and which organizations are legally separate, component units of the City. Based on the application criteria, the financial statements present the City as the primary government. The City does not contain any component units.

Joint Area Fire Board - The City is a participant in the joint venture known as the Rose City Area Fire Board, along with the townships of Rose, Cumming, and Klacking. The Rose City Area Fire Board provides fire protection services to the residents of its members.

In the event of the withdrawal of one member, the withdrawing member shall receive 50% of the withdrawing member's share of the Fire Board's assets (as appraised) less any liabilities. In the event of the withdrawal of two or more members, all property shall be disposed of in any manner upon which all parties can agree as provided in the Fireboard agreement.

The most recent available information from the Fire Board's audited financial statements as of December 31, 2004:

Total Assets	\$ 138,019	Total Revenues	\$ 106,879
Total Liabilities	24,212	Total Expenditures	78,322
Total Equity	113,807	Increase in fund balance	28,557

Payments to the Fire Board by the City of Rose City for the year ended June 30, 2005 were \$13,743. Financial information for the Fire Board can be obtained from the City Clerk at the city hall in Rose City.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a certain function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis for Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and severance pay are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absence expenditures are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

Major Street Fund - The Major Street Fund is used to account for state grants and other revenues restricted for use maintaining and improving the Major Street highway system.

Local Street Fund - The Local Street Fund is used to account for state grants and other revenues restricted for use maintaining and improving the Major Street highway system.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City reports the following major proprietary fund:

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system.

Water Fund - The Water Fund accounts for the activities of the water system.

Additionally, the City reports the following funds:

Agency Funds - Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's sewer function of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers for goods, services or privileges provided and (2) operating grants and contributions; and (3) capital grants and contributions, including, special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services. The Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Note 1 - Summary of Significant Accounting Policies(Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between fund that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts.

Property Taxes - Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The City's 2004 ad valorem tax is levied and collectible on July 1, 2004, and is recognized as revenue in the year ended June 30, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the City totaled \$12,024,323, on which ad valorem taxes levied consisted of 14.9685 mills for operating purposes, .9979 for fire protection purposes, and 2.9937 for City streets. The tax levies resulted in \$174,616 for operating purposes, \$11,726 for fire protection purposes and \$35,133 for City streets. These amounts are recognized in the respective General and Special Revenue funds.

Inventories and Prepaid items - Inventories are valued at cost, on a first-in, first-out basis. Inventory of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$250 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. Infrastructure assets acquired prior to implementation of GASB 34 are not included in the financial statements.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 years
Buildings and additions	50 years
Vehicles	5 years
Office furnishings	5-20 years
Other equipment	5-20 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds as they come due for payment, generally when there are employee terminations as of year end. Employees do not receive a payoff of unused sick and personal business days.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriating or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information - The City is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the City Council for consideration. Public hearings are obtained to obtain taxpayer comments and the budgets are adopted at the activity level by a majority vote of the City Council.

The budget document presents information by fund and activity. The legal level of budgetary control adopted by the City Council is the activity level.

During the year, the budgets were amended in a legally permissible manner.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City incurred expenditure variances as follows:

<u>Fund and Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
General Fund - Recreation and Culture	\$ 3,074	\$ 3,840	\$ 766

Note 3 - Deposits and Investments

A reconciliation of cash and investments as shown in the financial statements to the City's deposits and investments is as follows:

Government-wide Financial Statement Captions:

Cash and cash equivalents	<u>\$ 513,631</u>
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Notes to Financial Statements:

Deposits	<u>\$ 513,631</u>
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Investment and deposit risk:

Interest rate

In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: investing operating funds primarily in shorter term securities and limiting the average maturity in accordance with the City's cash requirements.

Credit risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRPs). The City has no investments for which ratings are required.

Investment and deposit risk

Custodial credit risk - deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State law does not require and the City does not have a policy for custodial credit risk. At June 30, 2005, \$234,540 of the City's bank balances of \$519,237 was exposed to custodial credit risk because it was uninsured.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City is authorized by statute and City policy to invest surplus funds in the following:

- a. Bonds, securities, and other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States with remaining maturities of two years or less.
- b. Certificates of deposit of a bank which is a member of the Federal Deposit Insurance Corporation.
- c. Commercial paper rated at the time of purchase within the two highest classifications by not less than two standard rating services.

The City's deposits are in accordance with statutory authority.

City of Rose City
Notes to Financial Statements
June 30, 2005

Note 4 - Receivables

The following is the detail of the receivables of the governmental activities due from other governmental units at June 30, 2005:

	General Fund	Sewer Fund	Other Major and Non- Major Funds	Total
State of Michigan	\$ 10,909	\$ -	\$ 15,225	\$ 26,134
Less: Allowance for Uncollectibles	-	-	-	-
Total receivables	<u>\$ 10,909</u>	<u>\$ 0</u>	<u>\$ 15,225</u>	<u>\$ 26,134</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Rent paid in advance	\$ -	\$ 630
Totals	\$ 0	\$ 630
Total deferred revenue	<u>\$</u>	<u>\$ 630</u>

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities were as follows:

Governmental Activities

<u>Assets</u>	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Capital assets not being depreciated - Land	\$ 59,543	\$ -	\$ -	\$ 59,543
Capital assets being depreciated:				
Infrastructure	187,221	51,472	-	238,693
Land improvements	101,624	-	-	101,624
Buildings	175,058	-	-	175,058
Furniture and equipment	236,765	6,357	5,066	238,056
Subtotal	<u>760,211</u>	<u>57,829</u>	<u>5,066</u>	<u>812,974</u>
<u>Accumulated Depreciation</u>				
Infrastructure	5,461	11,271	-	16,732
Land improvements	35,127	5,076	-	40,203
Buildings	69,914	3,934	-	73,848
Furniture and equipment	119,924	18,840	4,605	134,159
Subtotal	<u>230,426</u>	<u>39,121</u>	<u>4,605</u>	<u>264,942</u>
Net capital assets being depreciated	<u>529,785</u>	<u>18,708</u>	<u>461</u>	<u>548,032</u>
Net capital assets	<u>\$ 529,785</u>	<u>\$ 18,708</u>	<u>\$ 461</u>	<u>\$ 548,032</u>

City of Rose City
Notes to Financial Statements
June 30, 2005

Note 5 - Capital Assets (Continued)

Business-type Activities

<u>Assets</u>	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Capital assets being depreciated				
Sewer system	\$ 2,070,221	\$ 3,692	\$ -	\$ 2,073,913
Sewer system-buildings	37,157	-	-	37,157
Sewer system-equipment	21,320	-	-	21,320
Water system	498,783	11,712	-	510,495
Subtotal	2,627,481	15,404	-	2,642,885
<u>Accumulated Depreciation</u>				
Sewer system	767,872	41,500	-	809,372
Buildings	18,575	1,486	-	20,061
Equipment	20,910	430	-	21,340
Water system	141,776	6,729	-	148,505
Subtotal	949,133	50,145	-	999,278
Net capital assets being depreciated	1,678,348	(34,741)	-	1,643,607
Net capital assets	\$ 2,208,133	\$ (16,033)	\$ 461	\$ 2,191,639

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 5,450
Public safety	4,891
Public works	23,381
Recreation	5,399
Total governmental activities	\$ 39,121

Business-type activities - Sewer	\$ 43,416
Business-type activities - Water	\$ 6,729

City of Rose City
Notes to Financial Statements
June 30, 2005

Note 6 - Receivables, payables and transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>		<u>Amount</u>
General Fund	\$ 11,904	General Fund	\$	1,503
Local Street Fund	1,503	Local Street Fund		-
All Ages Recreation Fund	-	All Ages Recreation Fund		97
Sewer Fund	-	Sewer Fund		687
Water Fund	594	Water Fund		11,712
Fiduciary Funds	-	Fiduciary Funds		2
Total	\$ <u>14,001</u>	Total	\$	<u>14,001</u>
<u>Transfer In</u>		<u>Transfer Out</u>		
Water Fund	\$ 20,000	General Fund	\$	20,000
	\$ <u>20,000</u>		\$	<u>20,000</u>

Note 7 - Risk Management

The City is exposed to various risks of loss related to theft of, damage to, and destruction of assets: errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last three years.

Note 8 - Defined Benefit Pension Plan (Municipal Employees' Retirement System of Michigan)

Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple employer defined benefit pension plan administered by the MERS Retirement Board that covers substantially all full-time employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants of MERS. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan, 48917 or by calling (800) 767-6377.

Funding Policy - The City is required to contribute at an actuarially determined rate; the current rate is 5.56% of annual covered payroll. City employees are required to contribute 3-5% of their annual covered payroll. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City. The City's current year covered payroll and its total current year payroll for all employees amounted to \$85,724 and \$138,850 respectively. The employer contribution for the fiscal year was \$4,766. Required employee contributions for the fiscal year were \$4,286.

Note 8 - Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)
(Continued)

Annual Pension Costs - For the year ended June 30, 2005, the City's annual pension cost of \$4,766 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as of December 31, 2004, using the entry age normal actuarial funding method. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0%-8.5% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 of E-2. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, are amortized as a level percent of payroll over a period of 30 years. The City of Rose City does not have an unfunded liability.

Three year trend information as December 31, 2004 follows:

	2002	2003	2004
Annual Pension Cost	\$ 14,682	\$ 15,515	\$ 11,588
Percent of APC Contributed	100%	100%	100%
Actuarial Value of Assets	434,791	470,815	481,925
Actuarial Accrued liabilities	424,334	459,429	416,950
Overfunded Actuarial Liability	10,457	11,386	64,975
Funded Ratio	102%	102%	116%
Covered Payroll	170,610	170,355	85,724
UAAL as a Percentage of Covered Payroll	0%	0%	0%

Note 9 - Commitment - Cumming Township

On November 6, 1997, the City Council executed an agreement with Cumming Township, whereby the Township is authorized to connect its wastewater collection system to the City's wastewater treatment system. The Township will be allowed to utilize up to 13% of the wastewater treatment system's capacity. The Township will pay all costs of connection.

Additionally, the Township agrees to pay the City for each user of the Township Collection System at rates enumerated in the City's sewer rate ordinance.

The City agrees to operate and maintain the Township's facility. The Township shall reimburse the City for the effort at its prevailing hourly rates for labor and equipment.

Required Supplemental Information

City of Rose City
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Fund Balance - Beginning of year	\$ 128,454	\$ 128,454	\$ 152,313	\$ 23,859
Resources (Inflows)				
Taxes and fees	182,749	182,749	195,375	12,626
Licenses and permits	1,185	1,185	2,820	1,635
Federal grants	-	-	-	-
State-shared revenues	87,784	87,784	90,920	3,136
Charges for services	1,450	650	2,561	1,911
Fines and forfeits	365	365	97	(268)
Interest and rentals	28,930	28,930	30,930	2,000
Reimbursements	75,000	75,000	82,673	7,673
Other	1,850	3,139	3,736	597
Amounts available for appropriation	<u>379,313</u>	<u>379,802</u>	<u>409,112</u>	<u>29,310</u>
Charges to Appropriations (Outflows)				
General government	106,850	111,836	101,601	(10,235)
Public safety	64,130	71,375	68,080	(3,295)
Public works	168,724	169,524	138,270	(31,254)
Recreation and culture	3,074	3,074	3,840	766
Other	10,500	11,752	9,712	(2,040)
Capital outlay	5,400	9,720	6,357	(3,363)
Contributions to other funds	20,000	20,000	20,000	-
Total charges to appropriations	<u>378,678</u>	<u>397,281</u>	<u>347,860</u>	<u>(49,421)</u>
Fund Balance - end of year	<u>\$ 129,089</u>	<u>\$ 110,975</u>	<u>\$ 213,565</u>	<u>\$ 102,590</u>

City of Rose City
Budgetary Comparison Schedule - Major Street Fund
Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Fund Balance - Beginning of year	\$ (3,156)	\$ (3,156)	\$ -	\$ 3,156
Resources (Inflows)				
Taxes and fees	-	-	-	-
Licenses and permits	-	-	-	-
State-shared-grants and other	59,238	59,238	53,765	(5,473)
Charges for services	-	-	-	-
Contributions from other funds	-	-	-	-
Other	-	-	-	-
Amounts available for appropriation	<u>59,238</u>	<u>59,238</u>	<u>53,765</u>	<u>(5,473)</u>
Charges to Appropriations (Outflows)				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	34,623	43,123	31,326	(11,797)
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total charges to appropriations	<u>34,623</u>	<u>43,123</u>	<u>31,326</u>	<u>(11,797)</u>
Fund Balance - end of year	<u>\$ 21,459</u>	<u>\$ 12,959</u>	<u>\$ 22,439</u>	<u>\$ 9,480</u>

City of Rose City
 Budgetary Comparison Schedule - Local Street Fund
 Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Fund Balance - Beginning of year	\$ 44,579	\$ 44,579	\$ 35,648	\$ (8,931)
Resources (Inflows)				
Taxes and fees	35,199	35,199	35,133	(66)
State shared-grants and other	20,790	20,790	17,929	(2,861)
Interest	-	-	-	-
Other	3,500	3,500	7,126	3,626
Amounts available for appropriation	<u>59,489</u>	<u>59,489</u>	<u>60,188</u>	<u>699</u>
Charges to Appropriations (Outflows)				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	22,830	59,330	52,167	(7,163)
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Contributions to other funds	-	-	-	-
Total charges to appropriations	<u>22,830</u>	<u>59,330</u>	<u>52,167</u>	<u>(7,163)</u>
Fund Balance - end of year	<u>\$ 81,238</u>	<u>\$ 44,738</u>	<u>\$ 43,669</u>	<u>\$ (1,069)</u>

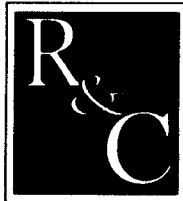
Other Supplemental Information

City of Rose City
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	Special Revenue Funds		
	DDA	All Ages Recreation	Total Special Revenue
Assets			
Cash and investments	\$ 5,553	\$ 6,635	\$ 12,188
Due from other funds	-	-	-
Due from other governments	-	-	-
Total assets	\$ <u>5,553</u>	\$ <u>6,635</u>	\$ <u>12,188</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	\$ 589	\$ 589
Accrued and other liabilities	-	97	97
Due to other funds	-	-	-
Total liabilities	-	686	686
Fund Balances:			
Unreserved	<u>5,553</u>	<u>5,949</u>	<u>11,502</u>
Total fund balance	<u>5,553</u>	<u>5,949</u>	<u>11,502</u>
Total liabilities and fund balances	\$ <u>5,553</u>	\$ <u>6,635</u>	\$ <u>12,188</u>

City of Rose City
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005

	Special Revenue Funds		
	DDA	All Ages Recreation	Total Special Revenue
Revenue			
Taxes and fees	\$ 7,690	\$ -	\$ 7,690
Charges for services	-	-	-
Interest and rentals	-	-	-
Other	-	10,381	10,381
Total revenue	7,690	10,381	18,071
Expenditures			
General government	2,137	-	2,137
Culture and recreation	-	5,553	5,553
Capital outlay	-	-	-
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	2,137	5,553	7,690
Excess of Revenue Over (Under) Expenditures	5,553	4,828	10,381
Other Financing Sources (Uses)			
Transfers in (out)	-	-	-
Total other financing sources (uses)	-	-	-
Net Change in Fund Balances	5,553	4,828	10,381
Fund Balances - Beginning of year	-	1,121	1,121
Fund Balances - End of year	\$ 5,553	\$ 5,949	\$ 11,502



ROBERTSON & CARPENTER, LLP

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 69 103 E. Main Street Rose City, Michigan 48654

Phone (989) 685-2411 Fax (989) 685-2412

Other Office: Mio, Michigan

Rodney C. Robertson, CPA

Robert J. Carpenter, CPA

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LOCAL AUDIT & FINANCE DIV.

December 22, 2005

To the City Council
City of Rose City

We have audited the financial statements of the City of Rose City for the year ended June 30, 2005, and have issued our report thereon dated December 22, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 1, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Rose City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Rose City are described in Note 1 to the financial statements. We noted no transactions entered into by the City of Rose City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Rose City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Rose City, either individually or in the aggregate, indicates matters that could have a significant effect on the City of Rose City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Rose City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our study and evaluation of the internal controls as described in the third paragraph, certain matters came to our attention upon which we would like to comment and offer the following recommendations:

Budgeting

The recommended budget adopted by the general appropriations act for the Major Street Fund for the fiscal year ended June 30, 2005 indicated a beginning fund balance with a deficit of \$3,156. The City Council should not adopt any budgets with projected deficits. The budgets should be revised to adjust anticipated revenues or expenditures to eliminate the projected deficit prior to adoption by the Council.

This information is intended solely for the use of the City Council and management of City of Rose City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


ROBERTSON & CARPENTER, LLP
Certified Public Accountants